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MediaOne Group

August 6, 1999

Ms. Magalie Roman-Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
TW-A325
Washington, D.C. 20554

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Re: Annual Assessment of the Status of Competition in Markets for the Delivery of Video Programming
CS Docket No. 99-230

Dear Ms. Salas:

Enclosed herewith for filing are the original and four (4) copies of MediaOne's Comments in the above-captioned matter.

Please acknowledge receipt by date-stamping the extra copy and returning it with the messenger.

Very truly yours,

Susan M. Eid

SME/vnm

Enclosures

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Before the
FEDERAL COMMUNICATIONS COMMISSION
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In the Matter of	)	
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Annual Assessment of the Status of	)	CS Docket No. 99-230
Competition in Markets for the	)	
Delivery of Video Programming	)	

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COMMENTS OF MEDIAONE GROUP, INC.

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COMMENTS OF MEDIAONE GROUP, INC.

MediaOne Group, Inc. ("MediaOne") submits these comments in response to the Federal Communications Commission's (the "FCC's" or "Commission's") Notice of Inquiry in the captioned matter.[1] MediaOne is the parent company of one the largest multiple system cable operators in the United States, providing a full range of broadband communications services to approximately five million customers. MediaOne also provides residential facilities-based competitive local telephone and cable on-line data services in several large U.S. markets.[2]

I. INTRODUCTION AND SUMMARY

Pursuant to federal law, the Commission is required to report annually to Congress on the status of competition in the market for the delivery of video

[1] *In the Matter of Annual Assessment of the Status of Competition in Markets for the Delivery of Video Programming*, CS Docket No. 99-230, Notice of Inquiry, FCC 99-148, rel. Jun. 23, 1999 ("NOI").

[2] On May 6, 1999, MediaOne entered into an Agreement and Plan of Merger pursuant to which MediaOne would merge with and into a direct wholly-owned subsidiary of AT&T Corp.

programming.[3] In its NOI, the Commission seeks information to assist in its preparation of the sixth annual report on competition in markets for the delivery of video programming ("1999 Competition Report"). The 1999 Competition Report will update the Commission's assessment of the status of competition and report on changes in the competitive environment since the Commission submitted its 1998 report to Congress.[4] In particular, the Commission seeks data that will allow them to compare the alternatives available to consumers in terms of video programming offerings and prices.

In these comments, MediaOne provides examples of direct competition in its video programming business and discusses how competition in the areas where it provides service has intensified over the past year. MediaOne details how it is meeting these competitive challenges. As evidenced herein, the Commission should report to Congress that, unlike the residential telephony marketplace, healthy competition in the multichannel video marketplace exists and continues to intensify throughout the United States.

II. DISCUSSION

A. MEDIAONE IS EXPERIENCING INCREASED COMPETITION IN EVERY MAJOR GEOGRAPHIC AREA IN WHICH IT PROVIDES VIDEO PROGRAMMING SERVICES.

MediaOne provides multichannel video service to subscribers domestically in 15 states. Within these states, MediaOne's major markets are Atlanta, Georgia,

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3 47 U.S.C. §548(g).

4 *Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming*, CS Docket No. 98-102, Fifth Annual Report, 13 FCC Rcd 24284 (1998) ("1998 Competition Report").

Massachusetts, Los Angeles County, California, Jacksonville Florida, Detroit, Michigan, and Minneapolis/St. Paul, Minnesota. As the Commission noted in its 1998 Competition Report, cable's competitors currently control 15 percent of the multichannel video market.[5] The number of direct broadcast satellite ("DBS") subscribers has reached nearly 10 million – up from 7.2 million in 1998 – and two out of every three new MVPD subscribers in 1998 chose DBS.[6] At the same time, the number of Open Video System subscribers has grown 2,100 percent.[7] Furthermore, Ameritech has obtained 87 franchises in three Midwestern states in competition with MediaOne and other cable operators, and digital MMDS service has been introduced in still more of MediaOne's markets. Consequently, MediaOne is facing competition from a multitude of multichannel video programming distributors in <u>each</u> of its major markets.

1. Local Telephone Companies Are Overbuilding MediaOne's Cable Systems.

Incumbent local exchange carrier Ameritech, through its cable subsidiary, Ameritech New Media, Inc. ("Ameritech"), has been granted franchises for eleven communities served by MediaOne, representing nearly 160,000 homes passed. The Commission has found effective competition to exist in five of these franchise areas in Michigan (Plymouth, Plymouth Township, Northville, Northville Township, and Canton

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5 1998 Competition Report at ¶6.

6 Seth Schiesel, "SBC-DirecTV Deal Is Set, Executives Say," *New York Times*, July 16, 1999; 1998 Competition Report at ¶12.

7 *Id.*

Township).[8] Ameritech is also competing with MediaOne in Madison Heights, Roseville, Westland, Hazel Park, Dearborn Heights, and Wayne, Michigan.[9] Ameritech has been receiving franchises on terms that can be less onerous than those applied to the incumbent franchisee.[10]

BellSouth, through its subsidiary, Bell South Interactive Media Services, Inc. ("BellSouth"), is competing with MediaOne in parts of Florida and Georgia. BellSouth is employing a strategy of using both wireline and wireless delivery systems to provide competing video services. In wireline delivery, BellSouth has been granted Title VI cable franchises in a number of Florida communities where MediaOne currently provides service. For example, BellSouth has been granted a countywide franchise for Dade County, Florida that allows it to compete in all areas of the County that MediaOne services.[11] BellSouth has also been granted a countywide franchise for St. John's County, Florida, and provides cable service to a private development known as World Golf Village in St. John's County. BellSouth also holds a ten-year countywide franchise for Gwinnett County, Georgia.

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8 *In the Matter of Continental Cablevision of Southeast Michigan Petition for Determination of Effective Competition, Memorandum Opinion and Order*, 12 FCC Rcd. 1467 (1997).

9 MediaOne purchased the Wayne system from Time Warner on December 4, 1998.

10 *See, e.g., Cable TV Fund 14-A d/b/a Jones Intercable v. City of Naperville*, Case No. 96C5962, 1997 U.S. Dist. LEXIS 7336 (N.D.Ill. May 21, 1997).

11 Yet another cable provider, Strategic Technologies, Inc. ("STI") has been granted a cable franchise for a smaller portion of Dade County that overlays MediaOne's existing franchise.

2. Local Telephone Companies Are Competing With MediaOne's Cable Systems Using Wireless Technology.

BellSouth has also been acquiring wireless cable companies in Florida and Georgia, and has begun its initial rollout of digital wireless cable service in Jacksonville, Florida in addition to its broadly deployed service in Atlanta, Georgia.[12] Wireless video services are easier to deploy in urban areas because entry costs are not prohibitive: they don't require cable franchises or time-consuming and expensive street cuts to build infrastructure. Indeed, BellSouth is able to offer digital wireless service to Atlanta with only four transmission towers.[13] BellSouth has been directly competing with MediaOne for cable television customers in the metropolitan Atlanta area for over a year. Using programming by the Americast consortium, BellSouth offers Atlanta residents more than 160 digital channels of service. Its digital signals cover about a 30-mile radius in and around Atlanta, and are being configured to avoid any overlap with BellSouth's wireline cable properties in the Atlanta suburbs of Chamblee and DeKalb County.[14] BellSouth Entertainment president Bob Frame, was quoted as saying earlier this year, "We have tens of thousands of customers, including many from the MediaOne service area."[15]

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[12] MediaOne has sought a determination that it is subject to effective competition in Atlanta, Georgia and surrounding communities from BellSouth Entertainment, Inc.'s digital wireless service. *See In the Matter of MediaOne of Colorado, Inc., Petition for Special Relief*, (filed July 2, 1999).

[13] "BellSouth MDS Offering Battles MediaOne in Atlanta," Video Competition Report, June 22, 1998, at p.10; Michael E. Kanell, "Phone company offers an option to cable, satellite," *The Atlanta Journal-Constitution*, June 4, 1998, at A1.

[14] *Id.*

[15] Ernest Hosendolph, "Blockbuster merger holds promise for Atlanta," *The Atlanta Journal-Constitution*, March 23, 1999.

Indeed, BellSouth expects to capture 30-35 percent of the Atlanta cable market within the next two to four years.[16]

In Florida, BellSouth recently launched digital wireless service in Jacksonville in addition to its existing service in Orlando. BellSouth's Jacksonville service provides a competitive offering to MediaOne's approximately 259,000 customers in Jacksonville and surrounding communities. BellSouth further intends to extend its digital wireless offering to Daytona Beach and Miami later this year.[17] In the Miami area, MediaOne provides cable service to some 96,000 Dade County customers and 175,000 Broward County customers. The wireless service will establish a large footprint for BellSouth's competitive services and has the potential to overlay MediaOne's entire franchised area in Dade County. As previously mentioned, BellSouth also has a Title VI franchise for all of Dade County.

In southern California, consumers have a choice from one of the country's fastest-growing digital wireless systems. The 150 channel digital MMDS system provides a competitive multichannel video offering to customers throughout the entire Los Angeles basin, including Orange County, an area of more than 5 million homes. The system was started as Pacific Bell Video Service, but as Pacific Bell, Nynex, and Bell Atlantic aborted their Tele-TV partnership, it was acquired by a traditional cable operator – Austin, Texas-based PrimeOne.[18] "PrimeOne has come to the market with media guns

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[16] *See* Monica Hogan, "Wireless Cable Ops Still Upbeat," *Multichannel News,* at 67, July 13, 1998.

[17] BellSouth News Release, "Pace Signs Deal To Provide Latest In Digital Set-Top Boxes For BellSouth's Home Entertainment Service," Feb. 23, 1999.

[18] According to the license transfer applications, SBC retains a 10.81 percent interest in PrimeOne. Hence, Tele-TV remains LEC-affiliated for purposes of effective competition.

booming. Ads run across all boundaries during varied dayparts, hawking Tele-TV's digital-basic, premium, digital-music and pay-per-view channels."[19] "The wireless technology has one distinct benefit in this broadcast-rich market: It is not subjected to must-carry rules. Tele-TV has chosen to carry the network affiliates, two PBS stations and very few other broadcasters. Tele-TV uses its superior digital-broadcast reception as a selling point against digitally upgraded systems, which still deliver the local stations via analog technology."[20] PrimeOne also operates an analog wireless cable system providing Tele-TV service to over 40,000 customers in Riverside County, which Pacific Bell originally acquired from Cross Country Wireless in July 1995.[21]

3. Electric Utilities Are Competing With MediaOne Using Cable and OVS Systems.

MediaOne is facing competition from electric utilities or their affiliates for the provision of video services. MediaOne is facing cable and OVS competition from Residential Communications Network, Inc. ("RCN"). RCN has secured local approvals to offer cable service in numerous communities in suburban Boston, and is already offering service to residents in the City of Boston, Arlington, Newton, Somerville, and

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[19] Linda Haugsted, "PrimeOne's Tele-TV Challenges L.A. Ops," *Multichannel News,* Jun. 21, 1999, at p. 46.

[20] *Id.*

[21] MediaOne has had effective competition petitions with respect to these wireless systems on file with the FCC for Orange County (Costa Mesa and Tustin) and Riverside County (Corona, Pomona and Menifee) since September 17, 1997 and June 18, 1997, respectively. To date, the FCC has taken no action with respect to these petitions despite the fact that they are both unopposed.

Waltham, Massachusetts.[22] Currently, RCN is designing and building network facilities in nearly two dozen other Boston-area municipalities and has plans to build out to approximately 65 communities in Massachusetts.[23] RCN is using its OVS authority to build out its network where it lacks local franchises.[24] RCN's service areas overlap with MediaOne's cable service areas in 20 communities, not including communities that MediaOne is acquiring from Time Warner.[25]

RCN has entered into a joint venture with an unregulated subsidiary of Boston Edison, the local electrical utility, to provide phone, cable, and Internet services to 1.6 million Boston Edison customers as well as communities that are contiguous to the Boston Edison service territories.[26] This strategic alliance gave RCN access to Boston Edison's 200-mile advanced fiber-optic network, which covers large portions of Boston as well as nearly four dozen surrounding communities. RCN is also seeking alliances with municipal light departments in the communities of Norwood, Wellesley, Braintree,

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[22] *See* RCN Press Releases, "RCN Adds To Growing Boston Cluster," June 3, 1999; "RCN Signs Agreement To Serve Town of Lexington," April 15, 1999; "RCN's Boston Cluster Expands To Half A Million Homes," March 9, 1999.

[23] RCN Press Release, "RCN To Dramatically Accelerate Network Deployment In Boston Under New Long-Term Agreement With The City," July 27, 1999.

[24] *See Time Warner Cable v. RCN-BeCoCom, Memorandum Opinion and Order,* DA 98-798 (rel. Apr. 28, 1998).

[25] Arlington, Burlington, Cambridge, Dedham, Hopkinton, Milton, Natick, Needham, Newton, Quincy, Sherborn, Stoneham, Waltham, Watertown, Wayland, Wellesley, Weston, Weymouth, Winchester, and Woburn, Massachusetts. Id. at ¶12 n.34. MediaOne has sought a determination that it faces effective competition from RCN in Arlington and Newton. *See In the Matter of MediaOne of Massachusetts, Inc., Petition for Special Relief,* (filed April 19, 1999).

[26] RCN Annual Report 1997.

Hingham, and Hull, Massachusetts, which are contiguous to Boston Edison's service territories.

RCN's strategy is to deploy its networks in high density, high-usage neighborhoods. To this end, RCN originally focused its efforts on the heavily populated Boston to Washington corridor, which represents 4 percent of the nation's geographical area but nearly 28 percent of its telecommunications market.[27] Over the past year, RCN has turned its attention to the West Coast and is rapidly constructing its network along the San Francisco-to-San Diego corridor, which has similar characteristics to its Northeastern markets.[28] RCN is currently serving customers in Northern California and has been granted an OVS certificate to provide service in Los Angeles and Orange Counties.[29] Coupled with PrimeOne's digital wireless service, RCN will thus offer all of MediaOne's Southern California customers a **fifth** competitive multichannel video provider. These multichannel video alternatives include DirecTV and EchoStar, which provide competition to MediaOne on a national scale.

4. DBS Is Providing Nationwide Video Competition To MediaOne.

In addition to competition from the local entities described above, MediaOne faces vigorous video competition from national DBS providers. As noted earlier, the number of direct broadcast satellite ("DBS") subscribers has reached nearly 10 million,

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27 *Id.*

28 RCN Press Release, "RCN Corporation Welcomes First California Customers," July 28, 1999. Together, RCN's East and West Coast local fiber optic networks target densely populated areas comprising nearly 40 percent of the U.S. residential communications market spread over just 6 percent of its geography. *Id.*

29 RCN Press Release, "RCN Surpasses 11 Million OVS Homes With Approval To Serve Customers in Southern California," June 14, 1999.

and continues to grow at a record breaking pace.[30] For example, in just the month of March 1999 alone, DirecTV posted a record 120,000 net new subscribers, resulting in a record first-quarter increase in net new subscribers of 304,000, a 60 percent gain.[31] "We have dramatically and permanently changed the TV landscape as consumers continue to switch away from cable in record numbers," offered DirecTV's President Eddy Haretenstein.[32]

With agreements to acquire United States Satellite Broadcasting ("USSB"), the assets of Primestar and Tempo's two high-power satellites, DirecTV has achieved the broadest distribution in the DBS industry. It has expanded its current channel line-up to more than 210 channels, and has the bandwidth to provide a large array of new channels and services, including local broadcast signals. DirecTV itself now has more than 7 million customers, making it the size of the third largest MSO and a presence in one out of every 14 homes.

EchoStar is also experiencing record subscriber growth. EchoStar added 105,000 net new Dish Network customers in June 1999. This was the ninth consecutive month Dish Network has achieved customer growth of over 100,000 net additions. For the second quarter of 1999, Dish Network added 332,000 subscribers, an increase of 84 percent over second quarter 1998. For the first half of 1999, Dish Network has added

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30 Seth Schiesel, "SBC-DirecTV Deal Is Set, Executives Say," *New York Times,* July 16, 1999.

31 "Sitting on Top of the World," *Multichannel News Advertising Supplement* (June 1999).

32 "CableFAX Daily, November 16, 1998, at p.2.

657,000 net subscribers, an increase of 92 percent over the first half of 1998. The Dish Network's total customer base is now approximately 2.6 million.[33]

This phenomenal growth rate can be partially attributed to the regulatory advantages which DBS operators enjoy over cable operators. Unlike DBS, cable operators such as MediaOne are unable to advertise a single price for service even across contiguous franchise areas, not to mention across the country, because of locally-based rate regulation, local franchise obligations such as public, educational and governmental ("PEG") access support, local franchise fees, and taxes, all of which impact the prices a cable operator may charge it customers. Similarly, MediaOne is unable to package or even align its channel line-ups in the same manner as DBS companies due to the restrictions imposed upon cable operators by rate regulation and must-carry requirements.

The success of DBS can also attributed to its programming flexibility. DBS operators are able to offer customers exclusive programming, such as packages of NBA, NHL, NFL, and NCAA games that are extremely attractive to sports fans.[34] In the words of DirecTV's Eddy Hartenstein: "DirecTV subscribers were provided with entertainment choices they couldn't get anywhere else... It's clear that consumers are selecting DirecTV for our exclusive and differentiated programming."[35] In addition to program

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[33] EchoStar Communications Corporation Press Release, "EchoStar Communications Corporation Nets 105,000 Customers in June 1999."

[34] R. Thomas Umstead, "DirecTV Seeks Exclusive Marketing Deals," *Multichannel News*, August 10, 1998, at p. 46 ("DirecTV Inc. is actively seeking exclusive, pay-per-view promotional deals with event and movie distributors."); R. Thomas Umstead, "'March Madness' Will Hit DBS, Not Cable," *Multichannel News*, November 9, 1998 (DirecTV exclusive agreement with NCAA for mens college basketball tournament games via pay-per-view).

[35] "Sitting on Top of the World," *Multichannel News Advertising Supplement* (June 1999).

exclusivity, DirecTV can offer stripped down channel line-ups to multiple dwelling units and commercial establishments because they are unrestricted by must-carry, PEG and leased-access carriage obligations. Consequently, "DirecTV currently provides commercial programming to more than 35,000 bars and restaurants across the country. The Commercial Choice package features 47 popular channels and Music Choice carries 40 digital quality commercial-free audio channels.... The slightly scaled-down Business Value plan offers 40 video channels and 38 music channels to semi-public viewing accounts such as banks, churches, retail outlets, police stations and libraries."[36] DirecTV also "has a commanding presence in the multiple-family dwelling unit ("MDU") markets, providing single-dish service to apartment buildings, co-ops, homeowners associations, townhouses and condominiums, representing nearly 25 percent of total U.S. households or more than 28 million units nationwide."[37]

DBS' large channel capacity and lack of mandatory carriage requirements further allows it to carry niche services that are unfeasible for cable operators.[38] For example, on August 3, 1999, Dish Network launched a 20-channel package of Spanish-language television and audio programming.[39] Dish Network also offers targeted international programming, including an Arabic Language Package, Hindi Language Package, Polish,

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[36] "The DirecTV System Formula for Success," *Multichannel News Advertising Supplement* (June 1999).

[37] *Id.*

[38] "DirecTV Readies Melting Pot of Nets," Multichannel News, July 20, 1998, at 6.

[39] EchoStar Communications Corporation Press Release, "Dish Network To Launch New 20-Channel Spanish Package," July 19, 1999.

Portuguese, French, Italian, and Japanese channels.[40] With the expected passage of H.R. 1554, the Satellite Copyright, Competition and Consumer Protection Act of 1999, satellite carriers will be able to offer local signals as part of their satellite package. Even today, however, DBS customers can receive local broadcast signals using a new generation of off-air antennas that can seamlessly deliver high quality off-air broadcast signals directly to a DSS system with just a push of the customer's remote control.[41]

These significant regulatory advantages have allowed DBS providers to enter into marketing partnerships with other multichannel video providers. For instance, DirecTV recently agreed to a wide-ranging marketing and distribution partnership with SBC Communications adding to deals already in place with GTE and Bell Atlantic.[42] These agreements give the telcos a proven and ubiquitous video product to bundle with their voice and data offerings in local markets where the telcos have universal name recognition and well-oiled marketing machines. In return, DirecTV shares a percentage of revenue from each subscriber with the telco with built-in percentage increases and other incentives for the telco to achieve certain subscriber levels. Most importantly, the telcos provide DirecTV with links to tens of millions of potential subscribers.

5. MediaOne Is Facing Competition From SMATV Operators.

MediaOne competes with more than 30 SMATV providers in Georgia, a dozen SMATV providers in both Florida and California, and five in New England. A number

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40 *See* "International Programming," http://www.dishnetwork.com/programming/international/index.html.

41 "YES YOU CAN! Enjoy Local Channels and DIRECTV® Too!," http://www.directv.com/misc/yesyoucan3.html.

of these SMATV providers, such as Optel, Inc., Cable Plus, One Point Communications (an SBC Communications affiliate), and GE Rescom, have established national reputations and compete directly with MediaOne.

SMATV operators generally do not "use" the public rights-of-way.[43] Consequently, SMATV operators primarily serve MDUs. Because SMATV operators' entire business is focused on MDUs, their presence makes the MDU market highly competitive. Like DBS, SMATV operators do not labor under any rate regulation, must-carry, customer service, or local franchising obligations, including franchise fees and universal service. This gives them tremendous competitive advantages in the MDU market as they may "cherry-pick" the most desirable properties, provide channel line-ups without unpopular PEG, leased access and must-carry signals, and offer landlords financial incentives to secure exclusive access to MDUs. Additionally, with the judicial expansion of the FCC's Entertainment Connections, Inc. ("ECI") ruling, SMATV operators who use common carrier video transport between service locations can now function exactly like a franchised cable operator without bearing any of the regulatory and franchise obligations under which franchised cable operators labor.[44]

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42 Seth Schiesel, "SBC-DirecTV Deal Is Set, Executives Say," *New York Times,* July 16, 1999.

43 47 U.S.C. §522(7)(B) (private cable exemption); *Guidry Cablevision v. City of Ballwin*, No. 96-2037 (8th Cir. 1997) (SMATV cables crossing under a public street not a "use" of public right-of-way).

44 *Entertainment Connections, Inc., Memorandum Opinion and Order*, FCC 98-111 (rel. Jun. 30, 1998); *City of Austin v. Southwestern Bell Video Services,* A-98-CA-028 (W.D. Texas, Aug. 3, 1998) (relying on ECI to find Southwestern Bell Video did not need a franchise to interconnect apartment buildings where it provided video service when purchasing signal transport facilities from its corporate affiliate).

The FCC's new rules governing the disposition of MDU wiring have only increased the current advantages of SMATV operators in the MDU marketplace by providing them access to wiring installed at the expense of incumbent operators.[45] MediaOne urges the Commission to apply its cable home wiring rules to all MVPDs to reduce any further regulatory disparity that creates false economies in the MDU marketplace. Likewise, given the competitiveness of the MDU market, any further rules promulgated by the Commission should be uniformly applied to all MVPDs.

B. MEDIAONE IS MEETING ITS COMPETITIVE CHALLENGES BY INVESTING IN INFRASTRUCTURE AND CREATING ADDED VALUE FOR ITS CUSTOMERS.

MediaOne believes that a long-term commitment to service, quality and value is essential to maintaining customer satisfaction and loyalty in a competitive market where consumers are well aware that they have video options from alternative providers. Consequently, MediaOne has invested heavily in upgrading its broadband networks to enhance network quality and reliability as well as to provide capacity for added video programming offerings and other new communications services. By year-end 2000, MediaOne's domestic broadband investment will exceed $7 billion. By the end of June 1999, this investment has resulted in approximately 5.8 million homes being available for enhanced video services such as advanced analog and digital. This figure will continue to grow as MediaOne seeks to upgrade or rebuild substantially all of its systems nationwide by the end of the year 2000.

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[45] *Cable Home Wiring*, CS Docket No. 95-184 and MM Docket No. 92-260, *Report and Order and Second Further Notice of Proposed Rulemaking*, 13 FCC Rcd 3659 (1988). Of course, when MediaOne loses access to its wiring, customers lose the ability to receive ancillary broadband capabilities, such as high speed Internet service, which generally are not provided by SMATV companies.

As MediaOne's systems become upgraded or rebuilt, MediaOne is offering consumers various programming packages to satisfy a wide variety of subscriber needs. Programming choices span from the lowest cost "Lifeline tier," which includes local broadcast stations, local origination, and PEG access channels and is typically priced around $10 per month, to cable programming service tiers, migrated product tiers, new product tiers, premium service and pay-per-view offerings.

In June 1999, MediaOne introduced digital cable offerings in Atlanta, Georgia, Cleveland, Ohio, and Richmond, Virginia. Digital video service was launched in Detroit last year. Digital video provides customers with the option to access numerous new multiplex premium and digital music channels. Customers adding MediaOne digital service to their existing cable service now have access to more than 170 channels. These actions have been taken in response to growing competitive pressures and to improve the value of service to MediaOne's customers.

C. MEDIAONE'S PRICES FOR VIDEO PROGRAMMING CONTINUE TO BE COMPETITIVE GIVEN INFRASTRUCTURE INVESTMENTS AND COST INCREASES.

MediaOne's prices for video programming continue to be reasonable and competitive in light of the substantial investment it is making in system rebuilds, programming cost increases, and some of the additional public service obligations uniquely imposed on cable operators. In the NOI, the Commission seeks information regarding the magnitude of rate changes, the factors causing changes in rates, and whether competitive alternatives have a constraining pressure on cable rates.

1. MediaOne Continues To Deliver An Excellent Value.

MediaOne, like any other retail business, will normally reflect the wholesale costs of its product and delivery system in its price. And cable's costs have increased dramatically more than the rate of inflation. MediaOne's prices reflect the costs of infrastructure upgrades, programming service additions and license fees, and investment in innovative new technologies. These expenditures, however, result in a video offering that provides a solid value to our customers. Although prices have risen modestly, cable subscribers have been treated to more programming choices with higher quality programming on those channels.[46] Significantly, cable operators have managed to keep prices competitive with other video providers despite the fact that cable operators are subject to public interest obligations that most other video providers do not share. Obligations such as PEG access channels and support, institutional networks, universal service, franchise fees, and other taxes make it more costly for cable operators than for MMDS, SMATV, or DBS providers to deliver a comparable package of service. These various obligations directly impact MediaOne's ability to remain price competitive.

2. MediaOne Has Experienced A Dramatic Increase In Programming Costs.

The recent active auctioning of the rights to exhibit sports events on broadcast and cable television has resulted in significant increases in the licensing fees that cable

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[46] *See* "Cable charging more, but this time it's giving more," *Electronic Media,* August 17, 1998; Cable TV rates rising again, but service and selection rising, too," *The Fresno Bee*, Dec. 26, 1997.

operators must pay to carry sports programming. For MediaOne, sports programming costs currently comprise over 19 percent of all of its programming costs and look to further increase in the future.[47] When sports rights auctions result in higher license fees for sports carried by cable networks, and the cable networks then raise their compensation demands from MediaOne, the company is faced with a dilemma. MediaOne is committed to providing its customers with highly valued programming, and most of the sports rights auctions involved programming that is in that category. Moreover, MediaOne's channel line-up may be less attractive to certain customers without that programming. However, MediaOne is aware that a delicate balance must be maintained between carriage of programming valued by its customers and the cost of that programming. If MediaOne fails to maintain that equilibrium, our customers will look to alternative delivery sources for their video programming.

Although the increase in sports programming costs is perhaps the most dramatic, the issue of rising programming costs is endemic among all programming categories. The result has been upward pressure on MediaOne's prices and shrinking profit margins for the Company.[48]

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[47] *See, e.g.*, "Disney NHL Bid Worries Operators," *Multichannel News*, August 10, 1998, at p. 8; "Losses Predicted on NFL Deals," *Los Angeles Times*, Jan. 15, 1998, at D1; "Fox-ESPN Fight Over Sports Rights Raising Cable Rates," *Los Angeles Times*, Aug. 29, 1997, at D1.

[48] "MediaOne Results Send Slowdown Signal," *Multichannel News*, Nov. 9, 1998 ("Solomon Smith Barney Inc.'s Spencer Grimes said MediaOne's cash-flow report looked like a sign of problems for cable operators in coming months, as costs for programming and new service rollouts rise while MSOs voluntarily hold back on basic-rate increases and face the possibility that ad-sales growth will slow.")

2. **Competitive Alternatives Have a Constraining Pressure on Cable Rates.**

The multitude of competitors that MediaOne faces in each of its markets has unquestionably constrained cable rates. Except for communities receiving increased channel line-ups due to system upgrades, MediaOne voluntarily restrained its rate increases to approximately 5 percent during the past year.[49] Although MediaOne's costs continue to rapidly increase, MediaOne is simply unable to recover all of its increased costs by raising cable rates.[50] Because of competition in the video marketplace, MediaOne cannot risk alienating its customers with large rate increases, regardless of the cost pressures imposed on the firm by rising programming and infrastructure expenses. Indeed, competition in the video business has led cable operators such as MediaOne to innovate, launch new products, and seek out new revenue sources such as digital video, high-speed data, and telephony.

III. CONCLUSION

As evidenced by the number and variety of alternative service providers currently competing with MediaOne, there is robust competition in the multichannel video marketplace. MediaOne is facing heightened competition from a multitude of well-financed multichannel video programming distributors in every major geographical area in which it provides cable service. Non-cable video subscribership, particularly DBS, continues to grow at an unprecedented pace. MediaOne is meeting its competitive

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[49] "Cable TV companies slowing rate hikes," *The Boston Globe,* November 21, 1998, at B1 ("Despite skyrocketing programming costs, competition is pushing cable companies to hold down rates.")

[50] *Id.* ("growing competition from rival cable operator Residential Communications Network and satellite broadcasters has forced MediaOne to absorb costs it would normally pass on to customers.")

challenges by investing in infrastructure, deploying broadband facilities, and launching new products and services that have added value for its customers. For the reasons discussed above, the Commission should report to Congress that there is healthy competition in the multichannel video marketplace that is continuing to increase in magnitude throughout the United States.

Respectfully submitted,

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By: ______________________

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August 6, 1999

CERTIFICATE OF SERVICE

I, Vimla Mathi, an executive assistant at MediaOne Group, do hereby certify that copies of the foregoing Comments of MediaOne Group In the Matter of the Annual Assessment of the Status of Competition in Markets for the Delivery of Video Programming, CS Docket No. 99-230, were served on August 6, 1999, to the following:

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